

1/29/77

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January 29, 1977

Stu Eizenstat -

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Jack Watson
Ham Jordan

cc

Stu

Truh

Hamm

Ray Marshall

THE WHITE HOUSE
WASHINGTON

1-29-77

To Stu.

Prepare limited emergency declaration for Florida. Check w Ray Marshall.

I want to sign it Monday -

J.C.

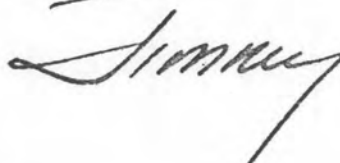
THE WHITE HOUSE
WASHINGTON

January 29, 1977

To David Heinsma

I share your interest in the inter-
relationship between governmental
policies and the stimulation of
capital formation. Your comments
are good.

Sincerely,



Mr. David J. Heinsma
2590 Tower Place
3340 Peachtree Road
Atlanta, Georgia 30326

P.S. Enclosed is the photo. I was
glad to help!

*The 1966 photo &
your help are great!
J.C.*

THE WHITE HOUSE

WASHINGTON

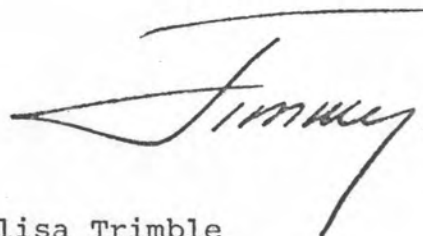
January 29, 1977

To Anna Elisa Trimble

I really appreciate your words of support, and your efforts in our behalf.


Thanks for sending me your proposal for foreign students. Your comments are helpful.

Sincerely,



Ms. Anna Elisa Trimble
Timberlake
Route 1, Woodstock Road
Roswell, Georgia 30075

*You really helped us -
when we needed it most!*



THE WHITE HOUSE
WASHINGTON

1-29-77

To Jody

Announce Paul

Wanke as head of
ACDA. An important
announcement -

Cy has info.

Do it Monday.

J

—
THE WHITE HOUSE
WASHINGTON

cc Ham
Jim King
Zbig
Tody

(copies already
sent to them
-RLK)

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

January 29, 1977

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
THE CHAIRMAN
COUNCIL OF ECONOMIC ADVISERS

Attached is a revised draft of the legislative message for the economic stimulus package. To insure delivery of the message to Congress by January 31, I would appreciate having your final comments by 2:00 p.m. tomorrow.



Stuart E. Eizenstat
Assistant to the President
Domestic Affairs and Policy

Enclosure

David
Rubenstein

cc to Bob Lindler

ELECTROSTATIC REPRODUCTION MADE FOR
PRESERVATION PURPOSES

ECONOMIC STIMULUS MESSAGE

TO THE CONGRESS OF THE UNITED STATES:

I am sending you my first comprehensive legislative message as President on the subject I believe to be the most vital domestic issue facing our country: the need to reinvigorate a stagnant economy. It is our responsibility, as partners in the leadership of our country, to take measures which are prudent and necessary to return our economy to the path of strong and steady growth. We cannot do it alone, for ours is an economy based upon private enterprise, free choice, and millions of individual decisions. But experience shows that reasonable prudent economic stimulus, applied at the right place and at the right time, can encourage that enterprise and those decisions in ways that lead to economic progress rather than drift.

The ultimate success of this program will depend upon the confidence the American people have in our economy. This economic stimulus program will help restore the confidence our people have lost in the economy.

It is my duty to report to you today that adequate economic progress cannot be expected without prompt action on our part. Our economy is presently too sluggish, too erratic, growing too slowly to permit any significant reduction in unemployment and idle plant capacity or any substantial improvement in the real take-home pay of our working people. We must not continue to drift.

Twenty-one months after the low point of the recession, there are still 7-1/2 million Americans who want to work and cannot find jobs. Another 1.4 million full-time workers have been forced to take part-time jobs. And still another 1 million workers have dropped out of the labor force because jobs are so hard to find. The rate of unemployment--

just a shade below 8 percent -- is far above an acceptable level. We pay a high cost for these levels of unemployment in [terms] of family breakdown, crime and social disorder, and increased government payments for unemployment compensation, food stamps, and welfare. Unemployment and idle capacity represent a tremendous waste of resources and loss of revenues. As conservatively estimated by the outgoing Council of Economic Advisers, our economy in 1976 operated at approximately \$132 billion below its high employment potential. That is a loss of income amounting to \$1800 per year for every household in our country. It accounts for lost Federal tax revenues approximating \$35 billion for last year alone and a further loss in annual tax collections by State and local governments approximating \$10 billion.

On 1/1/77 Council

The high levels of unemployment and the slow economic growth of recent years are important factors behind the near bankruptcy of a number of our municipalities, and the forced firing across the country of local policemen, firemen, teachers, and other municipal workers. Our Cities and towns ^{local govts} have all too often been faced with the cruel choice of making up for revenues lost due to the lagging economy ^{by} [through] raising taxes or lowering services - or both. The recession and slow recovery have meant that our Federal Government is spending additional dollars for welfare payments, food stamps, and unemployment insurance. Last year ^{were} such recession-related expenditures / \$22 billion higher than in 1973, the last pre-recession year.

The economy grew at a rate of only 3 percent in the last quarter. That was the third consecutive quarter that growth was slower than in the preceding quarter. The exceptionally cold winter has dealt on additional body-blow to our economy -- draining funds that would normally go

into job-producing expenditures.

Before the onslaught of the cold weather, most economists expected the economy to show some improvement in 1977, with growth in the neighborhood of 4-1/2 to 5 percent. But that will not be enough to make any significant dent in our inordinately high levels of unemployment and idle capacity, particularly since another 2 million persons will be entering the labor force in the next year alone. Moreover, the severe weather may reduce growth below 4-1/2 percent unless action is taken.

A vigorous United States economy is vital to our domestic welfare. With a strong domestic economy, we can, first and most importantly, create employment and income for our fellow Americans who want to work and cannot find jobs. We can be certain that those who are working will enjoy greater real incomes and a rising standard of living. And, we can begin to meet our Nation's unfilled social agenda in the areas of housing, welfare reform, and urban development.

A strong domestic economy is also one of the greatest contributions we can make to world stability and order. As we chart a steady path of growth, we make it easier for other nations to do so as well, thereby diminishing the specter of trade protectionism, international loan defaults, and increased poverty abroad. Cooperative expansion by the United States and the other leading industrial democracies with strong economies is not only in our mutual interest, but is crucial to the economic prospects of the developing nations.

As a people, we can do all these things. We can meet these challenges. But we must begin now. And we must act now.

I am proposing to you today a two-year \$31.2 billion economic recovery package, with the budgetary costs divided approximately equally between fiscal years 1977 and 1978, as further described in Table 1.

The main components of the program are:

-- increased countercyclical revenue sharing of approximately \$1 billion at annual rates;

-- an expansion of public service employment by 415,000 jobs;

-- an expansion of training and youth programs under the Comprehensive Employment and Training Act (CETA) by 346,000 positions;

-- an increase of \$4 billion in authorizations for local public works;

-- tax reform and simplification (increase in the standard deduction); and

-- tax rebates and payments to Social Security, S.S.I., and Railroad Retirement beneficiaries totaling \$11.4 billion.

In preparing this proposal, I was guided by several principles:

1. Continuity and Consistency

Because we seek a sustained expansion in consumer spending and in business investment, we wanted a program which would extend over the next two years, rather than a one-year 1977 package. Accordingly, our program will inject approximately \$15-1/2 billion into our economy over each of the next two years. While doing that, we have retained enough flexibility so that we can scale the program up or down, as circumstances warrant. The bulk of the stimulus from the tax reduction will come in 1977, and in 1978 the bulk of the spending for job creation will be coming on-stream.

Separate by years

We expect to transfer this sort of program from 1977 to 1978

This is not an "on-again, off-again" program. The careful mix and timing of this program is consistent with the goal of providing the private sector with a genuine opportunity to plan ahead.

2. Speed

Because we seek to spur the economy onto a higher growth track as soon as possible, we wanted to stimulate a substantial increase in consumer purchasing power in the months ahead. Accordingly, we are calling for \$11.4 billion ⁱⁿ tax rebate and cash payment which, if promptly enacted by Congress, would permit the mailing of checks to taxpayers by ^{early} this spring. Spending programs for public works and public service employment, however valuable, could not get money into the economic stream quickly enough in this fiscal year to give the economy the immediate acceleration it needs.

3. Fairness

We want an economic recovery program that targets its benefits to those taxpayers and those workers who need them the most. Accordingly, the bulk of the reduction in personal income taxes will go to low and middle income taxpayers.

Over 54% of the benefits from the tax rebates will go to those with adjusted gross incomes of less than \$15,000 and an additional 20% of the benefits will go to those earning between \$15,000 and \$20,000. All the benefits from enlarging the standard deduction will go to taxpayers who file joint returns with incomes of \$17,500 or less and taxpayers who file single returns with incomes of \$15,000 or less. See Tables 2 and 3. We have made a considerable effort to extend the benefits of the tax reduction as broadly as possible -- they will cover 96% of our population, including the working poor and the

not
good
to say

aged who have little or no tax liability. The business tax reductions have been specifically designed to reduce costs and provide incentives for small as well as large business. We have made a special effort to provide tax benefits, which are as fair for small business as for industry leaders. The spending and job creation programs will be targeted to the hardcore unemployed and those communities hurt most by the recent recession.

4. Effectiveness

Given the need for speed, I wanted a program which could do as much as can be done effectively, but which does not pledge us to do that which cannot realistically be done. Accordingly, while we may have preferred to spend more on direct job creation in 1977, we have proposed a package which phases in our direct spending programs over the two-year period, with the bulk of the job creation spending coming on track in 1978. I do not believe we can prudently do more. We are already proposing major expansions of existing programs within a short time frame. To do more would be to risk poor administration of these programs, which we can ill-afford. It is much easier to add in the future, if necessary, than to cut back.

5. Limitation on Permanent Budget Cost

Because we are committed to a balanced Federal budget for fiscal year 1981, I wanted a program which, to the extent possible, would hold down the size of permanent increases in spending or reductions in taxes. Accordingly, the tax rebate and many of the spending programs are temporary in nature and will phase out with a strong economic recovery. The business tax reductions and the increase in the standard deduction for individual taxpayers are the kinds of permanent tax changes which we are willing to recommend because of the long-term need for increased

business investment and our commitment to substantial tax simplification and reform. But even they may be modified later in the broader context of the comprehensive reform of the tax laws that I shall propose.

With these principles in mind, I urge the adoption of the following program:

A. Expenditure Programs

1. Public Works

Public works projects under the Department of Commerce have helped relieve conditions of high unemployment and have permanently improved the local communities in which they are undertaken. I recommend an immediate \$4 billion authorization for additional emergency public works beyond the \$2 billion authorized by the Congress last year, with \$2 billion to be appropriated for 1977 and \$2 billion for 1978. The need in America for public works projects was clearly demonstrated by the \$24 billion in local applications made to the Department of Commerce for the \$2 billion now available. Moreover, such public works programs leave permanent evidence of a government at work to put people to work.

not clear

In implementing the current public works program, it has become clear that the current formula for allocation of funds between high and low unemployment areas must be redesigned. The current 70%-30% formula and the regulations under it have resulted in some hard-pressed communities receiving inadequate funding while more affluent neighbors have had substantial programs approved. The Secretary of Commerce is now undertaking a careful analysis and review to determine the changes which should be made in the allocation formula. As soon as this study has been completed, legislative recommendations will be forthcoming. Pending such legislative recommendations,

I am directing the Secretary of Commerce to make such changes as are possible in the regulations to direct and target maximum possible amounts of money into areas of high unemployment.

2. Employment and Training Programs

As a nation we must address two separate, but equally devastating types of unemployment. One type, of which there remains an intolerable amount, is cyclical unemployment, brought about largely by the recession and an underperforming economy. In December 1976, there were 3.2 million more people unemployed than in 1973, when the overall unemployment rate was 5 percent. These additional 3.2 million persons are largely unemployed because of the general economic decline.

The long-term answer to bringing these cyclically unemployed back into the labor market is general strong economic expansion, creating sufficient business investment and consumer demand so that firms will increase their hiring.

Even in times of prosperity, there are many Americans who have a difficult time finding a job. These persons, who are regarded as structurally unemployed, include disproportionate numbers of teenagers, young adults, and minority group members.

To deal with this unemployment problem, we need pinpointed employment programs and training -- to develop skills where none now exist; to train where no training has hereto been available; to provide encouragement to private industry to hire the hard-core unemployed, when they would otherwise have no incentive to hire; and to provide public service jobs in useful areas, where private industry cannot take up the slack. This is both an

What's the
other
kind?

2

economic and a moral imperative. We risk grave and lasting injury to the fabric of our society if the disastrously high unemployment rate among these groups is permitted to persist.

I propose the following programs to deal with these problems:

a. Public Service Employment

It is time to take our people off welfare and put them to work. It is time to end the handout and extend the hand. My stimulus package places maximum emphasis on the creation of jobs in the private sector. Five out of six jobs are in the private sector. But it will take time for ^{an}expanding private economy to provide jobs for the unemployed. In the interim we can provide a major expansion in temporary public service jobs. Both prudent management and a sense of human decency suggest that dollars spent for jobs are better than dollars spent for unemployment compensation or welfare payments. Rather than having the government expend money for unemployment insurance, these persons should be put to work in productive jobs.

I propose an increase in the number of federally-funded public service jobs under the Comprehensive Employment and Training Act/^(CETA) from 310,000 now to 600,000 by the end of fiscal year 1977 and to 725,000 during fiscal year 1978. This program would cost \$0.7 billion in FY 1977 and \$3.4 billion in FY 78. See Table 4.

This public service program will enable the unemployed to use their talents in the service of their fellow citizens in hospitals, in mental institutions, in national parks for badly needed repair work, in recreation programs, in rehabilitating those

parts of our cities where crime is high and hope is scarce, and in energy-saving activities.

b. Youth Training and Employment Programs

Unemployment among our young people far exceeds the national average. It is imperative that we target specific programs to our youth. I am, therefore, proposing to expand the youth-oriented programs in CETA, Titles III and IV, by 176,000 slots --- from 422,000 to 598,000. See Table 4.

not aspirational

The basic youth programs will be conducted by state and local governments which are prime sponsors under CETA. In addition to the prime sponsor-operated programs, a Rural Youth Service Corps will be established in the Department of Labor through interagency agreements with the Departments of Interior and Agriculture. The Corps will train and employ youth aged 16 and 21 in conservation centers, where the work activity is primarily directed to the conservation, development, or management of public natural resources or recreational areas.

c) Other Employment and Skill Training (Including Assistance for Vietnam-Era Veterans)

Other groups such as Vietnam-era veterans, migrants and Indians require special attention. We must improve employment opportunities for skilled training for them through innovative approaches to training and private sector employment.

I am, therefore, proposing certain new and expanded programs to be operated under CETA. These programs include the creation of 92,000 jobs by the end of fiscal year 1978, in a new program called Help Through Industrial Retraining and Employment (HIRE), which will emphasize employment opportunities for Vietnam-era veterans; an increase of 58,000 slots for the skill Training Improvement Program; an addition of 20,000 slots for migrants, Indians and veterans under Title III of CETA; and a substantial expansion of apprenticeship programs. (See Table 4)

One of the unfortunate, lingering effects of the Vietnam war is the unemployed Vietnam-era veteran. He has served his country in time of a difficult war abroad but has often been forgotten here at home.

For Vietnam-era veterans between the ages of 20 and 24, the unemployment rate is 18 percent, compared to 12.5 percent for non-veterans of the same age. Disabled and black veterans are even harder hit. Unemployment among younger black veterans was 50 percent higher than for their non-veteran counterpart. The most recent data shows that unemployment among young black veterans is over 20 percent.

The American people have a tradition of fulfilling their obligation to those who served this country during time of war by providing assistance to veterans in times of peace to help their readjustment to disrupted civilian lives.

Don't put
Vietnam era
veterans in
class with migrants
etc.

Under the HIRE program, which could be expanded to include non-veterans, the largest corporations will be encouraged, through federally-funded initiatives, to make private sector job opportunities and training available to Vietnam-era veterans.

HIRE will initially focus on disabled Vietnam-era veterans, and then reach out to include all Vietnam-era veterans. If there are not enough Vietnam-era veterans available in a community to fill job openings, those jobs will be made available to disadvantaged young jobseekers and then to the long-term unemployed.

The government will pay a variable amount per veteran hired -- depending on that person's occupational level and job -- for each day of employment provided to such a person up to a maximum of twelve months.

In order to receive the Federal assistance, a requirement will be imposed that the employment of targeted group members must not result in the displacement of any worker who is currently employed by the firm, who has been laid off, or who is on strike.

I propose to increase the proportion of Public Service Employment jobs held by Vietnam-era veterans. Local goals will be needed, developed by individual prime sponsors and keyed to the number of veterans available in the area served. To help succeed in this effort, I propose that the Congress amend CETA to provide preference for Vietnam-era veterans for employment on all Federally supported Public Service jobs.

I have also asked the Department of Labor to establish outreach units in State Employment Service local offices staffed by disabled Vietnam-era veterans. They will identify other disabled Vietnam-era veterans and guide them to special programs, services, and available job opportunities. Pending the enactment of such amendments, I will urge the

CETA prime sponsor to voluntarily increase the number of Vietnam-era veterans in the expanded Public Service Employment program.

Under the expanded apprenticeship program which I have requested, apprentices will be allowed to continue skill development during periods of unemployment with a similar program extended to workers at the journeyman level.

In order to better match our training programs to industry needs, I will instruct the Department of Labor to establish a Skill Training Improvement Program, authorized under Title III of CETA, to be administered by CETA prime sponsors, and to fully involve the private sector.

*Amulian
Program
Indian
national
veterans*

Under the migrant and Indian initiatives, I will instruct the Department of Labor to solicit innovative proposals from units of government, private nonprofit organizations and tribal organizations. For migrants, the new initiatives reflected in these proposals will include residential training for migrant and seasonal farmworkers, training programs to be conducted in conjunction with rural economic development activities, the provision of training in connection with the rehabilitation of farm labor housing camps, and publicly assisted home rehabilitation and weatherization projects.

7 The Indian initiative will include proposals closely related to existing and planned efforts to enhance the infrastructure of Indian reservations and other native American communities. The efforts will include such projects as employment and training activities to be conducted in connection with road building, industrial park development and management, waste disposal systems, domestic fuel development, irrigation projects, and housing development and management.

3. Countercyclical Revenue Sharing

Under the countercyclical revenue sharing program passed by Congress in 1975, additional funds are made available to states and localities when the national unemployment rate exceeds 6% a year. I propose to fully fund the existing program through FY 1978 and to further expand it by \$1 billion annually.

Under current law, \$125 million is made available in each quarter to state and local governments when national unemployment rises above 6%. For each 1/2 of 1% of unemployment above 6%, an additional \$62.5 million is released in each quarter. Localities then qualify for their portions on a formula based upon their excess unemployment and general revenue sharing allocation.

Under ^{this} my proposal each 1/10 of 1% of unemployment above 6% would allow \$30 million of new funding to be distributed each quarter in addition to the basic \$125 million available at 6% unemployment. At 7.5% unemployment, this plan would distribute \$2.25 billion annually, compared to \$1.25 billion under the current program. By changing the formula, the program would be more sensitive to the unemployment rate and its fluctuations.

when?
I will also recommend that the new countercyclical revenue sharing be authorized on a five-year basis instead of the current one year, so that it will automatically continue in effect and be ready if needed in the future.

The proposed expansion of this program will cost an estimated \$500 million in FY 1977 and \$600 million in FY 1978.

B. Tax Reductions

1. Rebates and Cash Payments

The rebate and cash payment program which I propose has 3 components:

(a) A \$50 non-refundable rebate on 1976 taxes for each taxpayer and his or her dependents (except for taxpayers who file for the earned income credit), up to the limit of the taxpayer's liability. Thus a family of four with a tax liability of \$200 or more would receive a rebate of \$200, and a family of four with \$175 of tax liability would receive \$175. This will cost \$8.2 billion.

(b) A \$50 tax rebate per person to every family with children which has filed for the earned income credit recently enacted by the Congress. This would be payable even if the taxpayer has no tax liabilities. This would be of particular benefit to the working poor, who require our urgent assistance so they do not slide back into welfare. This will cost \$1.4 billion.

(c) A \$50 payment in 1977 to every beneficiary of Social Security, Supplemental Security Income (SSI), or Railroad Retirement. These payments would be of particular benefit to the aged poor. This will cost \$1.8 billion.

These rebates are intended to provide prompt spending power to almost every American. The Internal Revenue Service can begin sending checks within five weeks of enactment of these proposals by the Congress. The rebates and payments would have a budgetary cost of \$11.4 billion in 1977, and no impact in 1978.

quick

In determining the method by which the rebate should be made, I considered these important principles: the rebates should be distributed as widely as possible; the rebates should particularly help low and middle income persons; the rebates should require as little paperwork as possible; the rebates should be designed so as to reduce, to the extent administratively feasible, the possibility of a family receiving more than one payment; and the formula

for distribution should be readily understandable to the American people.

2. Tax Reduction and Simplification

I recommend a permanent increase in the standard deduction, now ranging from \$2100 to \$2800 for couples and from \$1700 to \$2400 for single persons to a flat \$2800 for couples and \$2400 for single persons. Thus the existing complex standard deduction would be placed by a larger, flat standard deduction.

This change would relieve an estimated 3.7 million low-income taxpayers and their families from tax liability. An estimated 4 million taxpayers, finding it more advantageous to use the standard deduction, would be relieved of the burden of paperwork and record-keeping that goes with itemizing deductions each year. This would be an important first step in reversing the increasing complexity of our tax returns.

Tax forms this year are more complicated than they should be. With the proposal I make here, millions of taxpayers will not only pay less taxes, they will find it much simpler to fill out their tax forms. It is estimated that if this proposal is adopted, roughly 75% of American taxpayers will take the standard deduction and be able to make a simple computation of their tax liability. As Table 3 indicates, all the benefits of this reform will go to low and middle income taxpayers.

This proposal would cost about \$4 billion per year. The decline in receipts would be \$1.5 billion in fiscal year 1977 and \$5.5 billion in fiscal year 1978, of which \$1.5 billion would be refunds on 1977 tax liability.

3. Tax Relief for Business Firms

Spell out
I recommend that businesses be allowed to take either a payroll tax credit equal to 4 percent of the FICA payroll tax paid as an employer or an additional 2 percent credit for new investment in machinery or equipment.

how many?
The election of which credit to take would be optional but binding on the firm for a fixed number of years. The option would be available not only to employers who are subject to the income tax, but to the growing number of employers not subject to income taxes, such as charitable and educational institutions, labor unions, state and local governments, and other non-profit entities.

RESULTS EXPECTED

It is my duty, just as it is yours, to carefully consider the costs of the program I have outlined. But we must also weigh that cost against the far greater cost of doing nothing--both in economic and human terms. It would be imprudent in the extreme to fail to act now to build a basis for self-sustaining economic expansion in the years ahead.

The passage of this program should mean an addition to the nation's output of \$14-18 billion (annual rates) by the end of 1977 and \$25-35 billion by the end of 1978. This program, together with the previously anticipated growth of the economy, should reduce the unemployment rolls by almost one million workers by the end of this year, with further significant reductions in unemployment in 1978.

The gross budget costs of this program are estimated to be \$15.5 billion in FY 1977 and \$15.7 billion in FY 1978. But the increased incomes and jobs which will result will

raise Federal revenues and reduce expenditures on unemployment insurance and welfare. As a result, we anticipate offsetting reductions in the amounts the program will add to the federal deficit by \$3 billion and \$8 billion in FY 1977 and FY 1978, respectively.

A decision to do nothing now is a decision to continue to accept an intolerable waste of human resources and a loss of real income for our people. The continuation of sluggish economic growth means continued large "passive" deficits over the years to come, without laying any foundation for future economic growth, lower deficits, and reduced unemployment.

Please in (The economic program I have proposed will set the stage for substantial growth in the years ahead. It will restore consumer confidence and consumer purchasing power; it will encourage businessmen to invest in a long-term growing economy; it will pave the way for a reduced Federal deficit in the future and a balanced Federal budget by FY 1981.

X, from A healthy housing industry is also critical for economic recovery. In the past, housing has been subject to extremely large swings, which have contributed to overall economic instability. The housing area involves a number of critical economic and social issues requiring long-term commitments rather than a short-range crash program. My objective is a sustained high level of home building. The Secretary of H.U.D. is now developing a program for increasing, on a long-term basis, subsidized housing for low and moderate income families. While not a part of this economic stimulus package, it will contribute to sustained economic growth.

X, from This stimulus package is a prudent one. It does not reach for unattainable goals, or create expectations that cannot be fulfilled. The 6 percent increase in real growth corresponds to what Congress itself has indicated was

desirable, attainable, and noninflationary. The tax reductions are in fact smaller, in relation to the Gross National Product, than the reductions of 1975 and 1964. It is also a balanced program, combining benefits and incentives for small and large business, working people, and local communities as well as for taxpayers. It recognizes that the role of creating and assuring jobs in our economy rests primarily with the private sector. Its benefits are fairly distributed through the economic spectrum, emphasizing tax relief for lower and middle class taxpayers, and jobs for the poor, for minorities, and the young.

Describe benefits, a 1/2 - once, then substance

The program is also practical in terms of what this government can accomplish in a short period to maximize employment and growth. I realize there are many who feel that more emphasis should be placed on increased spending for job creation. But I do not think that the emergency public works, public service employment, and training and youth programs can effectively absorb, in the next year and a half, additional amounts of funding beyond what I am proposing today. To overload them at this stage risks waste and inefficiency, a breakdown in administration, and a decline in the local support upon which they must depend.

NO INFLATIONARY IMPACT

? This program will not contribute to inflation.

Because the recent modification in inflation reflects special circumstances, such as the decrease in both food prices and mortgage interest rates, some slight increase in inflation may occur in 1977 over recent rates, particularly with the crop failures and fuel shortages caused by the severe winter. That increase will not be aggravated in any way by the stimulus program.

The 5 to 6 percent rate of inflation with which we are now living is not the result of an excessively buoyant economy, of tight labor markets, or of shortages and bottlenecks. There are millions of experienced workers looking for jobs; there is ample industrial capacity standing idle.

We are suffering, rather, from what might be called "momentum inflation." Prices are rising today because they were rising yesterday. Workers whose living standards were eroded by the sharp price increases of 1974 and 1975 are asking and getting increases in wages and fringe benefits that average about 7-1/2 to 8 percent a year. Business firms are passing the higher costs along in higher prices. Prices are chasing wages, and wages prices.

This kind of inflation has not been caused and will not be cured by a policy of sluggish recovery, high unemployment and idle plant capacity. Equally important, it will not be accelerated by a prudent policy of economic stimulus that restores a steady and sustainable rate of economic growth.

The increased productivity of an expanding economy, as well as the improved skills in our labor force which will result from our manpower training efforts, will help to dampen inflationary pressures. The proposed credit against payroll taxes will reduce labor costs and this should serve as a ^{slight} moderating influence on prices. But this Administration will do more. We regard stable prices as important an economic goal as full employment. And we intend to work toward achieving both of these goals together.

We're not
teaching
economics -
abbreviate
all this to
bare essentials

I will soon announce a substantial strengthening of the Council on Wage and Price Stability. It will analyze prospective supply and demand developments in particular industries to spot bottlenecks and shortages and recommend actions to overcome them, wherever possible. It will monitor wage and price developments. I believe that the cooperation of business and labor can be secured to give us pre-notification of important wage and price increases on a voluntary basis.

All my Cabinet officers will be under instructions to continuously evaluate and minimize to the extent feasible the inflationary impact of the programs and regulations their departments implement. I have already instructed the Secretary of Health, Education and Welfare to develop a program for reducing the rapid escalation of hospital costs.

Say only once if at all
Most importantly, this Administration intends to work closely and cooperatively with labor and business to head off inflationary wage and price decisions and to help ensure a solid increase in jobs, real wages, and real profits. Meetings among my principal economic advisers and union and business leaders will begin next month.

This Administration will never let its guard down against inflation, which robs us all.

I hope that the program I have set forth today will receive careful, prompt, and full consideration by the Congress of the United States. Our people are ready to see the Executive and Legislative branches move from an era of confrontation to an era of cooperation. Our common commitment is to put [all of] America --- its people, its plants, its inventive genius --- to work again.

omit
By acting now to reinvigorate our economy, we can take
a strong first step toward making this a better country
for all of our citizens and toward fulfilling our
responsibilities to people the world over.

I ask you to take that strong first step with me.

TABLE I
BUDGETARY COST OF THE ECONOMIC RECOVERY PROGRAM

	<u>Costs (in Billions)</u>	
	<u>FY 1977</u>	<u>FY 1978</u>
Increased countercyclical revenue sharing	0.5	0.6
Public Service Employment	0.7	3.4
Skill Training and Youth Programs in CETA	0.3	1.6
Public works (\$4 billion authorized)	0.2	2.0
Tax reform and simplification (increase in standard deduction) *	1.5	5.5
Business-oriented tax reduction	0.9	2.7
Tax Rebate and payment to Social Security S.S.I and Railroad Retirement beneficiaries	11.4	---
TOTAL STIMULUS PACKAGE (REDUCED RECEIPTS PLUS INCREASED OUTLAYS)	15.5	15.7

* Explain 1-3-2 ratio

TABLE 2

ESTIMATED EFFECTS OF THE ADMINISTRATION'S TAX
REBATE PROGRAM, DISTRIBUTED BY ADJUSTED
GROSS INCOME CLASS

(Calendar Year 1976 Levels of Income)

Adjusted Gross Income class (\$000)	: Tax change resulting from the fifty dollar per : capita rebate		
	: Amount	: Percentage	: Cumulative
	: (...\$ millions ...)	: Distribution	: Percentage
		: Distribution	: Distribution
		(.....percent)
Less than 5	-984	10.3	10.3
5 - 10	-2,010	21.0	31.2
10 - 15	-2,223	23.2	54.4
15 - 20	-1,904	19.9	74.3
20 - 30	-1,695	17.7	92.0
30 - 50	-564	5.9	97.9
50 - 100	-169	1.8	99.6
100 or more	-36	0.4	100.0
TOTAL	-9,585	100.0	

Office of the Secretary of the Treasury
Office of Tax Analysis

January 26, 1977

NOTE: Details may not add to totals due to rounding.

TABLE 3

ESTIMATED EFFECTS OF THE ADMINISTRATION'S
FLAT STANDARD DEDUCTION PROPOSAL, DISTRIBUTED BY
ADJUSTED GROSS INCOME CLASS

(Calendar Year 1976 Levels of Income)

ADJUSTED GROSS INCOME CLASS (\$000)	: Tax change resulting from the \$2,400/\$2,800 : standard deduction 1/		
	: Amount	: Percentage	: Cumulative
	: (..\$ millions):	: distribution:	: percentage
	: (.....percent		
Less than 5	-616	15.6	15.6
5 - 10	-1,953	49.4	65.0
10 - 15	-1,245	31.5	96.5
15 - 20	-137	3.5	100.0
20 - 30	-1	*	100.0
30 - 50	-*	*	100.0
50 - 100	-*	*	100.0
100 or more	-*	*	100.0
TOTAL	-3,951	100.0	

Office of the Secretary of the Treasury
Office of Tax Analysis

January 26, 1977

NOTE: Details may not add to totals due to rounding.

* Less than \$500 thousand or 0.05 percent.

1/ Includes the effect of extending the \$35 general tax credit to exemptions for age and blindness.

TABLE 4

SPENDING FOR JOB CREATION

(Dollars in millions, slots in thousands)

	FY 77 Recom. Incrmts.	FY 78 Recom. Incrmts. (Above Current Level)
Public Service Employment, CETA Title VI		
Outlays	591	2772
Slots, end of period	240	340
Public Service Employment, CETA Title II		
Outlays	124	616
Slots, end of period	50	75
Youth, CETA Title III		
Outlays	137	863
Slots, end of period	72	154
Skill Training Improvement Program, CETA Title III		
Outlays	75	250
Slots, end of period	58	58
Help Through Industrial Retraining and Employment (HIRE), CETA Title III		
Outlays	24	116
Slots, end of period	60	92
Migrants, Indians, Veterans CETA Title III		
Outlays	15	75
Slots, end of period	10	20
Job Corps, CETA Title IV		
Outlays	49	265
Slots, end of period	8	22
Apprenticeship Expansion, CETA Title III		
Outlays	20	40
Slots, end of period	<u>1</u>	<u>1</u>
TOTAL		
Outlays	1035	4996
Slots	498	761

*Include
public work*

THE WHITE HOUSE
WASHINGTON

January 29, 1977

Jody Powell -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

1-29-77

To Jody -

Clear Monday announcement on diplomatic
selection committee with
me.

J

January 29, 1977

Tim Kraft -

cc: Greg Schneiders

cc Greg

return original
to Tim Kraft

THE WHITE HOUSE
WASHINGTON

1-28-77

To Tim

Prepare instructions for
all White House staff
based on Valenti &
Rumsfeld cautionary
memos. Greg can
help.

E expedite.

J.

January 29, 1977

Landon Butler
Stu Eizenstat
Jack Watson

For your information.

Rick Hutcheson

UNITED STATES CIVIL SERVICE COMMISSION

WASHINGTON, D.C. 20415

January 28, 1977

MEMORANDUM FOR: The Honorable James D. Schlesinger
Assistant to the President
The White House

Several provisions of the pay laws governing Federal employees require the payment of overtime for hours in excess of eight in a day. These represent the principal obstacle to easy conversion of large segments of the Federal work force to a four-day, forty-hour week to help meet the present fuel shortage. These provisions can be suspended for the duration of the emergency by a simple addition to the pending Emergency Natural Gas Act. Language to do this is enclosed.

I believe it is important that the President's actions relate to the entire economy, rather than singling out Federal employees. Accordingly, I recommend that the President encourage industry to follow the Government's lead. In addition, you should consider including suspension in similar fashion of the significant number of statutes mandating overtime for over eight hours in a day for various segments of the private sector, e.g., Davis-Bacon, Walsh-Healy, etc. The enclosure includes an alternate form of language that should achieve this, but I would encourage the involvement of the Department of Labor, which administers most of these laws, to be sure.

We have developed a draft paper which summarizes for Federal agencies the various personnel management alternatives currently available to them when operations are curtailed. A copy is enclosed for your information. As you can see, an agency can go to a ten-hour day for some of its employees without entailing prohibitive overtime expenses, but only in limited circumstances. There is, of course, no bar to a ten-hour day, four-day week if overtime is paid. The President's general management authority is sufficient to order employees to work ten hours a day and to close installations one or more days a week.

I want to urge again, as I did at our meeting this morning, that national and Federal labor leaders be consulted on this matter as soon as possible. Preservation of this eight-hour (or less) day is a major concern of organized labor, and we need to do everything possible to elicit cooperation if not support for our actions.

Raymond Jacobson
Raymond Jacobson
Executive Director

Enclosures

THE MERIT SYSTEM—A GOOD INVESTMENT IN GOOD GOVERNMENT

Federal Employees Only

The President or his designated agent shall have the authority to suspend the operation of the provisions of sections 5542, 5544, 5550 and 6101 of title 5, United States Code, section 394 of title 7, United States Code, section 4107 of title 38, United States Code and any other provision of law to the extent that they relate to the payment of overtime to Federal employees.

Alternative Form

The President or his designated agent shall have the authority to suspend the operation of the provisions of all United States statutes to the extent that they relate to the payment of overtime.

The unusually cold Winter weather which has been experienced in many parts of the country this season is creating fuel shortages in some areas.

The Commission is aware that some agencies are already planning for appropriate actions in this connection. In making adjustments in agency operations, agency management should assure themselves that the interests and concerns of employees are fully considered, and that employees through their union representatives have the full opportunity to participate, as appropriate, in decisions that will affect them on the job. (For prior guidance on this matter, see CSC Bulletin 711-29, Technical Advice on Labor-Management Responsibilities in Implementing Federal Management Circular 74-1.) Any personnel actions must be effected in accordance with Commission regulations and policies. It is emphasized that the health and safety of employees in these emergency situations is a matter of prime concern to the Government.

The purpose of this Operation Memo is to set forth, in summary fashion, the leave and pay treatment features of the Federal personnel system that are particularly relevant when Federal offices or facilities are curtailed, under appropriate authority, in order to conserve energy for future use, or when there is no alternative but to temporarily shutdown because of non-availability of fuel or power.

Of course, we cannot anticipate the full range or possible combinations of situations which may arise in connection with the fuel shortage. Circumstances may dictate actions as simple as lowering the temperature level in a given building or as substantial as the closing of a Federal installation for a week or more.

Agencies in a given locality are urged to coordinate and cooperate in addressing such problems of mutual concern. This may be accomplished through such Federal interagency groups as Federal Executive Boards and the like.

There are a number of alternative courses of action which agencies may consider depending upon the severity and anticipated duration of the fuel crisis. This review of the available alternatives is intended to provide necessary information to assist agencies which are faced with an emergency situation. It should be emphasized that all of the alternatives presented below are already contained in existing law, regulation on FPM instructions.

There are basically two types of general situations which can arise.

I. Fuel Crisis of Limited Duration (Expected one-time occurrence).

Severe weather may create a physical impediment to delivering fuel, thus creating an immediate problem which is expected to be of short duration,

i.e., 1 week or less. In this case, it is likely that a metropolitan area, or even an entire state may be similarly affected. A critical situation could lead to a decision by appropriate officials affecting Federal buildings, While some critical functions such as hospital operations must continue to operate there are many other functions and services which could be curtailed.

Where the emergency is expected to be of very limited duration, agencies may grant excused absences without charge to leave consistent with policies established for other short term emergencies e.g., snowstorm, flood, fire, etc. (See Appendix A, Chapter 610, FPM Supplement 990-2, Guidelines for Dismissal and Leave Treatment of Federal Employees During Emergency Situations.)

II. Fuel Crisis of Indefinite Duration.

Where fuel supplies are dwindling rapidly due to high use levels brought on by extremely cold temperatures and delivery problems, it may be necessary to curtail operations by closing 1 day each week for an indefinite period of time (perhaps as long as 2 to 3 months) in order to conserve the fuel which remains.

Under such a situation, the use of excused absence is inappropriate.

Other options which should be considered are as follows:

A. Maximum use of Details.

Every effort should be made to keep those employees at installations which are affected at work. Towards this end, employees could possibly be detailed for useful work to other installations at which operating schedules have not been affected. (Availability of fuel and type of fuel used may allow some installations to continue normal or near normal operations while others cannot.) Cooperative arrangements among agencies are encouraged. It is recognized, however, that if an entire geographic area is being adversely affected detailing may not be possible.

B. Extended Work Day and use of Compensatory Time.

General Schedule employees may be granted compensatory time off where overtime worked is either irregular or occasional in nature. It should be noted, however, that in accordance with the provisions of section 5543 of title 5 U.S.C., employees whose rate of basic pay is at or below the maximum rate of GS-10 must voluntarily request compensatory time for it to be authorized. Under these emergency circumstances discussed herein, employees could be offered the opportunity to work two additional hours on each of 4 days with the overtime to be taken as compensatory time off on the fifth day within the same workweek.

However, under the law, agency heads have authority to prescribe that employees whose rate of basic pay is in excess of the maximum rate of basic pay GS-10 shall be granted compensatory time off for irregular or occasional overtime.

The Federal Wage System makes no provisions for granting compensatory time off to employees in lieu of overtime and, therefore, employees covered by that system could not use this option.

C. Use of Annual Leave.

General Schedule employees who do not wish to work overtime hours for compensatory time and Federal Wage System employees may use any annual leave which is available to them. While the taking of annual leave can be at the request of any employee, agencies have the authority to place employees with sufficient annual leave to their credit (including any annual leave that will accrue to the employees during the year) on annual leave at times considered appropriate by management. In exercising the authority to place employees on annual leave, agencies must comply with provisions in negotiated agreements.

D. Use of Leave Without Pay.

In the absence of earned leave or leave that will accrue during the year, or if an employee prefers not to disturb accumulated leave, an

employee can be placed on leave without pay, but only at the employees's request.

E. Furlough.

Furlough, while not precluded, should generally be used as a last resort.

Agencies have the clear obligation to treat employees in a responsible manner; and employees in turn are asked for their understanding and cooperation in enabling their agencies to deal effectively with exceptional situations brought about by the current fuel shortage.